

### COMPANY RESULTS

## Sapura Energy (SAPE MK)

1QFY23: Narrowing Core Loss And More Asset Monetisation For Reset Plans

**Core loss in 1QFY23 was better than expectation, on significant progress made on project claims; for the existing contracts, the outlook will improve given that rig utilisation and O&G prices will be at an all-time high. SAPE remains focused on ensuring its going concern, ignoring speculation of intervention (ie government). While debt burden remains high, we still assume a high possibility of SapuraOMV monetisation (vs rights issue). Upgrade to HOLD. Target price: RM0.06.**

### 1QFY23 RESULTS

Year to 31 Jan (RMm)	1QFY23	qoq % chg	yoy % chg	Comments
Revenue	886.1	95.5	(39.7)	
- E&C*	587.8	312.8	(48.1)	1QFY23 vs 4QFY22 EBITDA: RM62m/ RM0.9b loss
- O&M*	120.9	23.0	5.3	1QFY23 vs 4QFY22 EBITDA: RM31m/ RM68m loss
- Drilling	231.8	(12.1)	(8.0)	1QFY23 vs 4QFY22 EBITDA: RM50m/ RM22m
PBT	96.8	(101.5)	(251.2)	
- E&C	47.9	(101.8)	(6.2)	1QFY23 vs 4QFY22 EBITDA margin: 11%/ 805% loss
- O&M	26.6	(134.6)	741.3	1QFY23 vs 4QFY22 EBITDA margin: 26%/ 69% loss
- Drilling	(49.3)	(98.7)	(323.3)	1QFY23 vs 4QFY22 EBITDA margin: 21%/ 8%
Finance cost	(125.4)	1.9	(19.6)	
Associates	78.4	204.3	23.4	Energy (E&P): RM42m; Higher realized price US\$108/bbl
Pre-tax profit	96.8	(101.5)	(251.2)	E&P volume were lower qoq from 2.9mmbobe to 2.7mmbobe
Income tax	(9.4)	175.1	(75.4)	
Reported profit	91.9	(101.4)	(194.7)	
Core profit	(84.0)	(93.0)	(57.7)	Exclude forex gain of RM176m

Source: Sapura Energy, UOB Kay Hian \* E&C: Engineering and Construction; O&M: Operation and Maintenance

### RESULTS

- Management views 1QFY23 as the maiden quarter of the reset plans.** The core loss is better than our/consensus FY23 loss forecasts of RM0.5b, and the 1QFY23 EBITDA of RM250m is also ahead of our previous forecast of RM0.5b. Firstly, cost claims from legacy projects had made progress, while executing new E&C/O&M contracts. Sapura Energy (SAPE) gained RM23m late delivery charge reversals and RM93m claims from commercial settlements. Due to the long process of huge claims, this will be a recurring theme till FY24. Operationally E&C local yards and key vessel utilisations were at 31% and 25% respectively, on weak activities typical during monsoon season. Without those claims, the E&C might have recorded a RM50m LBITDA, still smaller vs historical loss levels.
- Rigs and E&P saw better profits qoq.** Cost base for rigs was lowered despite fewer operating days qoq. Also, SapuraOMV's profit benefitted from higher O&G prices despite lower volumes, and the volume impact will continue due to the unplanned shutdown of the Bintulu MLNG Dua terminal's Module 5 (for leakages) which is extended till Aug 22.

### KEY FINANCIALS

Year to 31 Jan (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	5,348	4,100	4,792	4,017	4,145
EBITDA	924	(2,279)	706	530	678
Operating profit	381	(2,801)	201	52	224
Net profit (rep./act.)	(38)	(8,922)	(124)	(295)	151
Net profit (adj.)	(110)	(3,187)	(300)	(295)	151
EPS (sen)	(0.6)	(16.5)	(1.5)	(1.5)	0.8
PE (x)	n.m.	n.m.	n.m.	n.m.	5.8
P/B (x)	0.1	10.3	(22.3)	(2.6)	(4.8)
EV/EBITDA (x)	11.5	n.m.	15.1	20.1	15.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(0.7)	(217.6)	(2.6)	(7.3)	3.6
Net debt/(cash) to equity (%)	110.0	11,698.2	(25,146.7)	(3,019.7)	(5,314.6)
Interest cover (x)	2.1	(4.5)	1.3	0.9	1.2
ROE (%)	n.a.	n.a.	n.a.	n.a.	(58.3)
Consensus net profit	-	-	(580)	(452)	(361)
UOBKH/Consensus (x)	-	-	0.52	0.65	n.m.

Source: Sapura Energy, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

### HOLD

(Upgraded)

Share Price	RM0.05
Target Price	RM0.06
Upside	+21.2%
(Previous TP)	RM0.02

### COMPANY DESCRIPTION

Integrated engineering, procurement, construction, installation and commissioning (EPCIC) oil & gas player.

### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	SAPE MK
Shares issued (m):	15,979.1
Market cap (RMm):	719.1
Market cap (US\$m):	163.2
3-mth avg daily t'over (US\$m):	1.5

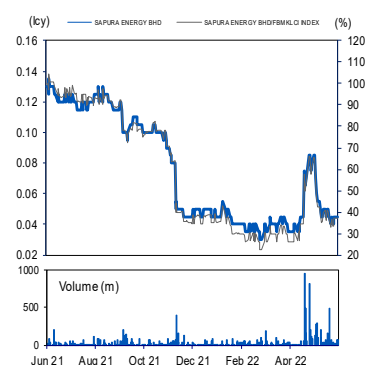
### Price Performance (%)

52-week high/low	RM0.135/RM0.030			
1mth	3mth	6mth	1yr	YTD
(43.8)	50.0	0.0	(66.7)	(10.0)

### Major Shareholders

-	-
-	-
-	-
FY23 NAV/Share (RM)	0.00
FY23 Net Debt/Share (RM)	0.51

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **Orderbook improved qoq from RM6.6b to RM8.3b.** This represents the group's ability to win jobs, even when they had to be choosy and sacrifice competitiveness without giving up on margins. New contract terms and contingency budgets are also ensured to be of favourable risk-reward. SAPE negotiated for better cost reimbursable terms, especially in view of high commodity prices/inflation risk. On certain E&C contracts, the client may bear the bunker costs for marine vessels. Another example mentioned is on item procurement where SAPE no longer sets a ceiling price when charging the client. In the past, if material costs exceed the ceiling price, the cost difference was borne by SAPE.
- **Not expecting any more major provisions for Yunlin contract termination.** Overall, the key strategy remains that SAPE focuses on claiming legacy E&C project claims while winning quality new contracts. The Taiwan windfarm contract is a special case of multiple cost overrun issues that forced SAPE to terminate the contract against their client. Hence, most likely none of the costs are reimbursed yet, and both sides may be preparing to go on an arbitration process. Significant provisions were already incurred, and as SAPE enforces the termination, this means it sees a high chance to be legally entitled for the claims.
- **The other strategy is to return the rig back to its glory days.** SAPE is reducing the rig fleet from 14 to 11, with rigs T19, T20 and Sapura Setia earmarked for scrap. On existing rigs, a) Sapura Jaya (which encountered force majeure with low rates during COVID-19 periods), saw its Angola contract extending by two years; and b) T10, T11 and T12 rigs recently secured five-year long-term contracts with PTTEP. This means by end-FY23, 10 out of 11 rigs will be chartered out, with five working in Thailand, and only three rigs left on short-term contracts and SAPE will enjoy its highest rig utilisation since 2014. Having said that, its financial conditions (constrained funding without bankers support) will cause delayed startup in two of the PTTEP rigs, by two months from July-August.
- **PN17 and funding relief may depend on any factors...** As expected earlier, SAPE is now under PN17 status, due to its small equity alongside less favourable auditor opinion. The RM10b loan and bankers/vendor scheme looks like a mammoth task (dragged out by another 6-9 months to Mar 23). But a sustained improvement in profitability, via project claims with rig/E&P growth, may lead to a positive change in auditors' opinion by FY23, potentially lifting the first hurdle on its sentiment (PN17 status).
- **...and we rule out likelihood of unwanted rights issue.** SapuraOMV's monetisation is still a high possibility, based on our observation that: a) 2P reserves and 2C resources are higher vs 2018's 253mmboe, factoring new concessions secured in Malaysia lately; b) the progress of the onshore sour gas plant signed between Petronas, Shell and PTTEP last weekend under Bintulu's Petrochemical Industrial Park (SIGGES project), also means a direct progress on monetising SapuraOMV's B14 field (that is tied to PTTEP's Lang Lebah), and c) PTT's massive five-year capex. We see a possibility of PTT becoming a potential buyer, and for prices to be attractive (ie not pegging to >US\$100/bbl oil prices) but also in order to not offend OMV (entry cost of US\$1.6b in 2018), we assume SAPE may consider exiting its stake close to OMV's valuation of US\$6.3/bbl, potentially freeing up capital of up to RM4b (on its 50% stake).

### EARNINGS REVISION/RISK

- **Smaller FY23-24 losses, from RM0.5b-0.6b losses previously.** We adjusted for better associate profits from SapuraOMV on higher blended O&G prices of US\$80/bbl to reflect the risk of volume underperformance. EBITDA forecasts are also upgraded by RM0.2b, as we adjust for better rig outlook and lower rig cost base (11 rig fleet) as well as more consistent claims from legacy E&C projects.

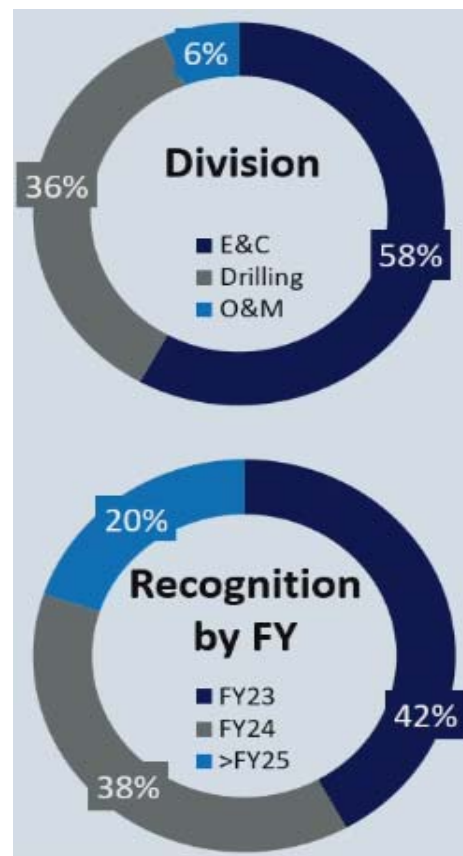
### VALUATION/RECOMMENDATION

- **Upgrade to HOLD, diluted target price of RM0.06 (from RM0.02).** Our target price is a combination of the negative net tangible equity of RM0.10/share, with a slightly higher valuation for SapuraOMV's monetisation, although for the latter we expect to match OMV's cost of US\$1.6b. Our target price focuses on management's efforts, ignoring external speculation of the government's/Petronas' intervention as shareholder, and also ignoring the bankers/vendor scheme (which may involve heavily equity dilution). We see a more balanced risk-reward given: a) smaller loss expectations, reflecting the going concern of both the drilling and E&C segments, and b) SAPE still has the ability to monetise assets, without rights issue.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• <b>Environmental</b>
- SAPE strives to report on its greenhouse gas emissions and reduction target.
• <b>Social</b>
- <b>Diversity.</b> 28% of total staff are female; staff comprises 37 nationalities as of FY21.
• <b>Governance</b>
- 55% of its board members are independent.

### ORDERBOOK RECOGNITION BY YEAR

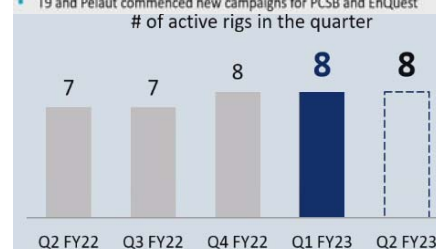


Source: Sapura Energy, UOB Kay Hian

### RIG UTILISATION TREND

Rigs	Client	Location	Technical Utilisation (Operational Performance)
Berani	Foxtrot	Ivory Coast	91.7%
Jaya	Chevron	Angola	100%
Alliance	Shell	Brunei	99.8%
Esperanza	PCSB	Malaysia	95%
Pelaut	EnQuest	Malaysia	100%
T-9	PCSB	Malaysia	100%
T-17	PTTEP	Thailand	100%
T-18	PTTEP	Thailand	100%

- Secured RM1.6 billion of new contracts (PTTEP, ExxonMobil, EnQuest, Shell)
- Jaya commenced 2-years contract extension from Chevron in Angola
- T9 and Pelaut commenced new campaigns for PCSB and EnQuest



**No of Secured Rig Days:**  
 Q1 FY23: 515 days (Jaya and Pelaut transition vs Q4);  
 Q4 FY22: 620 days

Source: Sapura Energy

### PROFIT & LOSS

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Net turnover	4,100	4,792	4,017	4,145
EBITDA	(2,279)	706	530	678
Deprec. & amort.	522	505	478	454
EBIT	(2,801)	201	52	224
Total other non-operating income	(5,735)	176	0	0
Associate contributions	(5,522)	341	317	592
Net interest income/(expense)	(501)	(557)	(568)	(579)
<b>Pre-tax profit</b>	<b>(8,824)</b>	<b>(16)</b>	<b>(199)</b>	<b>238</b>
Tax	(102)	(112)	(100)	(91)
Minorities	4	4	4	4
<b>Net profit</b>	<b>(8,922)</b>	<b>(124)</b>	<b>(295)</b>	<b>151</b>
Net profit (adj.)	(3,187)	(300)	(295)	151

### BALANCE SHEET

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Fixed assets	6,437	6,086	5,762	5,463
Other LT assets	6,241	6,622	6,670	6,983
Cash/ST investment	718	818	573	925
Other current assets	2,673	2,494	1,978	1,928
<b>Total assets</b>	<b>16,069</b>	<b>16,021</b>	<b>14,983</b>	<b>15,299</b>
ST debt	10,658	10,658	10,658	10,658
Other current liabilities	5,184	5,409	4,548	4,604
LT debt	0	0	0	0
Other LT liabilities	149	0	118	227
Shareholders' equity	85	(39)	(334)	(183)
Minority interest	(7)	(7)	(7)	(7)
<b>Total liabilities &amp; equity</b>	<b>16,069</b>	<b>16,021</b>	<b>14,983</b>	<b>15,299</b>

### CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>403</b>	<b>715</b>	<b>181</b>	<b>789</b>
Pre-tax profit	(8,824)	(16)	(199)	238
Tax	(101)	(112)	(100)	(91)
Deprec. & amort.	522	505	478	454
Working capital changes	2,161	121	(249)	202
Other operating cashflows	6,644	217	251	(14)
<b>Investing</b>	<b>(68)</b>	<b>(294)</b>	<b>(94)</b>	<b>(94)</b>
Capex (growth)	(154)	(154)	(154)	(154)
Investments	0	0	0	0
Proceeds from sale of assets	20	0	0	0
Others	67	(139)	61	61
<b>Financing</b>	<b>(199)</b>	<b>(321)</b>	<b>(332)</b>	<b>(343)</b>
Dividend payments	0	0	0	0
Proceeds from borrowings	(435)	(557)	(568)	(579)
Loan repayment	236	236	236	236
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>135</b>	<b>100</b>	<b>(245)</b>	<b>352</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>489</b>	<b>718</b>	<b>818</b>	<b>573</b>
Changes due to forex impact	94	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>718</b>	<b>818</b>	<b>573</b>	<b>925</b>

### KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	(55.6)	14.7	13.2	16.4
Pre-tax margin	(215.2)	(0.3)	(5.0)	5.7
Net margin	(217.6)	(2.6)	(7.3)	3.6
ROA	n.a.	n.a.	n.a.	1.0
ROE	n.a.	n.a.	n.a.	(58.3)
<b>Growth</b>				
Turnover	(23.3)	16.9	(16.2)	3.2
EBITDA	(346.6)	n.a.	(24.9)	27.8
Pre-tax profit	(9,819.8)	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	99.3	100.4	103.3	101.8
Debt to equity	12,542.8	(27,236.6)	(3,191.3)	(5,819.8)
Net debt/(cash) to equity	11,698.2	(25,146.7)	(3,019.7)	(5,314.6)
Interest cover (x)	(4.5)	1.3	0.9	1.2

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